Dip Alert: This 6.5%-Yielding Canadian Bank Now Trades at Just 8x Earnings

Description

Back in the market depths of December, I'd urged investors to back up the truck on **Laurentian Bank** (TSX:LB) stock while it sported a 7% dividend yield. Quickly after my strong buy recommendation, the stock catapulted 25% in just two months, at which point, I encouraged investors to take profits off the table, as the stock had run too far and too fast. Most recently, Laurentian surrendered 12% of the two-month gains such that the stock now trades at a more modest eight times trailing earnings.

If you acted on my trade suggestions, you made a quick killing. Indeed, I've flip-flopped between sell to buy to sell over the course of just a few months, and now that the stock has pulled back substantially yet again, patient investors are probably wondering what the heck they should do with the ridiculously volatile stock that trades more like a penny stock than a blue-chip bank.

What's up with the wild swings at Laurentian?

The company recently missed on earnings by a country mile, reporting $0.98 in adjusted EPS (accounting for restructuring expenses and all the sort), well short of the analyst expectations of $1.28. While it's become a common theme this earnings season for banks to miss the mark, Laurentian has undoubtedly disappointed the most by clocking in numbers that weren't even close to hitting the consensus.

Expenses were higher than expected, and the "other income" segment was a huge drag, as it declined a whopping 21% on a year-over-year basis. While the unfavourable macro environment was a negative for Laurentian, as it was for all other banks, it was clear that Laurentian was the most ill-prepared with its sub-par cost controls.

Coming off a "mini mortgage crisis," Laurentian was a compelling rebound candidate back at the December depths, but after the most recent quarter, I think investors should stand pat and wait for the stock to have a 7% yield before they jump back into the stock.

It was an ugly quarter, and as Canada's most volatile bank, investors should demand a little extra from Laurentian given the added risks and the haze clouding the company's longer-term growth story. As a regional bank, the stock should have a higher yield, but as a poorly run regional bank, the stock rightfully deserves to trade at a single-digit P/E.

While there is some value to be had in Laurentian after its disastrous earnings release, I'd encourage investors to exhibit patience and wait for that 7% yield before jumping back into Laurentian. The risks and volatility are just too high such that one would be better off in any one of Canada's more geographically diversified Big Six banks, some of which appear a better value that Laurentian at this juncture.

Yes, Laurentian is cheap here, but after getting a glimpse at the quarter, I don't think investors should be biting on shares just yet. It was an ugly quarter, and I think it could trigger a pullback right back to 52-week lows.

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